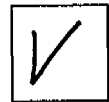


ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION

ANNUAL REPORT MAILING LABEL – MAKE CHANGES AS NECESSARY



W-01651B
Vail Water Company
1010 N. Finance Center Dr.
Suite 200
Tucson AZ 85710

ANNUAL REPORT
RECEIVED

APR 01 2005

AZ Corporation Commission
Director Of Utilities

FOR YEAR ENDING

12	31	2004
----	----	------

FOR COMMISSION USE

ANN04	04
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COMPANY INFORMATION

Company Name (Business Name) <u>VAIL WATER COMPANY, INC.</u>		
Mailing Address <u>P.O. BOX 13066 1010 N Finance Center Dr, Ste 200</u>		
<u>TUCSON</u>	<u>AZ</u>	<u>85710</u>
(City)	(State)	(Zip)
<u>520-571-1958</u>	<u>520-571-1961</u>	
Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Pager/Cell No. (Include Area Code)
Email Address _____		
Local Office Mailing Address <u>1010 N. FINANCE CENTER DRIVE, Ste 200</u>		
<u>TUCSON</u>	<u>AZ</u>	<u>85710</u>
(City)	(State)	(Zip)
<u>520-571-1958</u>	<u>520-517-1961</u>	
Local Office Telephone No. (Include Area Code)	Fax No. (Include Area Code)	Pager/Cell No. (Include Area Code)
Email Address _____		

MANAGEMENT INFORMATION

Management Contact: <u>CHRISTOPHER VOLPE</u>		<u>Vice President/Treasurer</u>	
<u>1010 N. FINANCE CENTER DRIVE</u>	<u>TUCSON</u>	<u>AZ</u>	<u>85710</u>
(Street)	(City)	(State)	(Zip)
<u>520-571-1958</u>	<u>520-571-1961</u>		
Telephone No (Include Area Code)	Fax No. (Include Area Code)	Pager/Cell No (Include Area Code)	
Email Address <u>KVOLPE@ESTESCO.NET</u>			
On Site Manager: <u>MICHAEL LEIDER Manny OROS</u>			
(Name)			
<u>13955 E. COLOSSAL CAVE RD.</u>	<u>VAIL</u>	<u>AZ</u>	<u>85641</u>
(Street)	(City)	(State)	(Zip)
<u>520-647-3679</u>	<u>520-647-3825</u>	<u>520-730-4730</u>	
Telephone No (Include Area Code)	Fax No. (Include Area Code)	Pager/Cell No (Include Area Code)	
Email Address <u>operator@vailwater.com</u>			

☒ Please mark this box if the above address(es) have changed or are updated since the last filing.

Statutory Agent: LINDA YANEY

1010 N. FINANCE CENTER DRIVE
(Street)

(Name)
TUCSON
(City)

(Title)
AZ
(State)

85710
(Zip)

520-571-1958

520-571-1961

Telephone No (Include Area Code)

Fax No. (Include Area Code)

Pager/Cell No (Include Area Code)

Email Address LYANEY@ESTESCO.NET

Attorney: RICHARD SALLQUIST

(Name)

2525 E. ARIZONA BILTMORE CIRCLE SUITE 117
(Street)

PHOENIX
(City)

AZ
(State)

85016
(Zip)

602-224-9222

602-224-9366

Telephone No (Include Area Code)

Fax No. (Include Area Code)

Pager/Cell No (Include Area Code)

☐ Please mark this box if the above address(es) have changed or are updated since the last filing.

OWNERSHIP INFORMATION

Check the following box that applies to your company:

☐ Sole Proprietor (S)

☐ C Corporation (C) (Other than Association/Co-op)

☐ Partnership (P)

☒ Subchapter S Corporation (Z)

☐ Bankruptcy (B)

☐ Association/Co op (A)

☐ Receivership (R)

☐ Limited Liability Company

☐ Other (Describe) _____

COUNTIES SERVED

Check the box below for the county/ies in which you are certificated to provide service:

☐ APACHE

☐ COCHISE

☐ COCONINO

☐ GILA

☐ GRAHAM

☐ GREENLEE

☐ LA PAZ

☐ MARICOPA

☐ MOHAVE

☐ NAVAJO

☒ PIMA

☐ PINAL

☐ SANTA CRUZ

☐ YAVAPAI

☐ YUMA

☐ STATEWIDE

UTILITY PLANT IN SERVICE

Acct. No.	DESCRIPTION	Original Cost (OC)	Accumulated Depreciation (AD)	O.C.L.D. (OC less AD)
301	Organization			-
302	Franchises			-
303	Land and Land Rights	11,000		11,000
304	Structures and Improvements	116,018	47,181	68,837
307	Wells and Springs	578,870	188,220	390,650
311	Pumping Equipment	920,613	216,189	704,424
320	Water Treatment Equipment			-
330	Distribution Reservoirs and Standpipes	781,582	123,767	657,815
331	Transmissions and Distribution Mains	8,398,226	768,153	7,630,073
333	Services	12,451	12,451	-
334	Meters and Meter Installations	581,517	87,666	493,851
335	Hydrants			-
336	Backflow Prevention Devices			-
339	Other Plant and Misc. Equipment			-
340	Office Furniture and Equipment	37,969	10,944	27,025
341	Transportation Equipment	51,857	16,004	35,853
343	Tools, Shop and Garage Equipment			-
344	Laboratory Equipment			-
345	Power Operated Equipment			-
346	Communication Equipment			-
347	Miscellaneous Equipment			-
348	Other Tangible Plant			-
	TOTALS	11,490,103	1,470,575	10,019,528

This amount goes on the Balance Sheet Acct. No. 108



CALCULATION OF DEPRECIATION EXPENSE FOR CURRENT YEAR

Acct. No.	DESCRIPTION	Original Cost (1)	Depreciation Percentage (2)	Depreciation Expense (1 x 2)
301	Organization			-
302	Franchises			-
303	Land and Land Rights	11,000		-
304	Structures and Improvements	116,018	2.80%	3,249
307	Wells and Springs	578,870	3.20%	18,524
311	Pumping Equipment	920,613	3.60%	33,142
320	Water Treatment Equipment			-
330	Distribution Reservoirs and Standpipes	781,582	2.00%	15,632
331	Transmissions and Distribution Mains	8,398,226	2.00%	167,965
333	Services	12,451	3.30%	-
334	Meters and Meter Installations	581,517	3.60%	20,935
335	Hydrants			-
336	Backflow Prevention Devices			-
339	Other Plant and Misc. Equipment			-
340	Office Furniture and Equipment	37,969	6.80%	2,582
341	Transportation Equipment	51,857	13.30%	6,897
343	Tools, Shop and Garage Equipment			-
344	Laboratory Equipment			-
345	Power Operated Equipment			-
346	Communication Equipment			-
347	Miscellaneous Equipment			-
348	Other Tangible Plant			-
	TOTALS	11,490,103		268,924

This amount goes on Comparative Statement of Income and Expense Acct. No. 403.

BALANCE SHEET

Acct. No.	ASSETS	BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	CURRENT AND ACCRUED ASSETS		
131	Cash	\$ 576,862	\$ 795,624
134	Working Funds		
135	Temporary Cash Investments		
141	Customer Accounts Receivable	124,438	158,409
146	Notes/Receivables from Associated Companies		
151	Plant Material and Supplies		
162	Prepayments	19,388	18,720
174	Miscellaneous Current and Accrued Assets	38,535	38,335
	TOTAL CURRENT AND ACCRUED ASSETS	\$ 759,223	\$ 1,011,088
	FIXED ASSETS		
101	Utility Plant in Service	\$ 8,087,710	\$ 11,490,103
103	Property Held for Future Use		
105	Construction Work in Progress	14,039	102,015
108	Accumulated Depreciation - Utility Plant	(1,306,503)	(1,470,575)
121	Non-Utility Property	779,482	1,704,626
122	Accumulated Depreciation - Non Utility		
	TOTAL FIXED ASSETS	\$ 7,574,728	\$ 11,826,169
	TOTAL ASSETS	\$ 8,333,951	\$ 12,837,256

NOTE: The Assets on this page should be equal to **Total Liabilities and Capital** on the following page.

BALANCE SHEET (CONTINUED)

Acct. No.	ASSETS	BALANCE AT BEGINNING OF YEAR	BALANCE AT END OF YEAR
	CURRENT LIABILITIES		
231	Accounts Payable	\$ 57,539	\$ 122,265
232	Notes Payable (Current Portion)	24,000	30,000
234	Notes/Accounts Payable to Associated Companies		
235	Customer Deposits	422,582	679,809
236	Accrued Taxes		
237	Accrued Interest		
241	Miscellaneous Current and Accrued Liabilities	177,408	267,000
	TOTAL CURRENT LIABILITIES	\$ 681,529	\$ 1,099,074
	LONG-TERM DEBT (Over 12 Months)		
224	Long-Term Notes and Bonds	\$ 495,175	\$ 460,840
	DEFERRED CREDITS		
251	Unamortized Premium on Debt	\$ -	\$ -
252	Advances in Aid of Construction	4,263,359	7,664,571
255	Accumulated Deferred Investment Tax Credits		
271	Contributions in Aid of Construction		
272	Less: Amortization of Contributions		
281	Accumulated Deferred Income Tax		
	TOTAL DEFERRED CREDITS	\$ 4,263,359	\$ 7,664,571
	TOTAL LIABILITIES	\$ 5,440,063	\$ 9,224,485
	CAPITAL ACCOUNTS		
201	Common Stock Issued	\$ 638,099	\$ 638,099
211	Paid in Capital in Excess of Par Value	2,267,825	2,267,825
215	Retained Earnings	(12,036)	761,804
218	Proprietary Capital (Sole Props and Partnerships)		
	TOTAL CAPITAL	\$ 2,893,888	\$ 3,667,728
	TOTAL LIABILITIES AND CAPITAL	\$ 8,333,951	\$ 12,892,212

COMPARATIVE STATEMENT OF INCOME AND EXPENSE

Acct. No.	OPERATING REVENUES	PRIOR YEAR	CURRENT YEAR
	OPERATING REVENUES		
461	Metered Water Revenue	\$ 1,041,620	\$ 1,239,737
460	Unmetered Water Revenue		
474	Other Water Revenues	442,716	859,735
	TOTAL REVENUES	\$ 1,484,336	\$ 2,099,472
	OPERATING EXPENSES		
601	Salaries and Wages	\$ 162,598	\$ 244,169
610	Purchased Water	59,343	25,152
615	Purchased Power	108,286	102,440
618	Chemicals	78	872
620	Repairs and Maintenance	27,614	49,495
621	Office Supplies and Expense	47,183	51,182
630	Outside Services	268,529	242,496
635	Water Testing	1,730	2,483
641	Rents	18,152	20,257
650	Transportation Expenses	12,114	14,081
657	Insurance - General Liability	27,171	34,016
659	Insurance - Health and Life	8,943	13,326
666	Regulatory Commission Expense - Rate Case	17,892	11,013
675	Miscellaneous Expense	26,667	85,043
403	Depreciation Expense	198,206	268,924
408	Taxes Other Than Income		
408.11	Property Taxes	23,131	54,427
409	Income Tax		
	TOTAL OPERATING EXPENSES	\$ 1,007,637	\$ 1,219,376
	OTHER INCOME/EXPENSE		
419	Interest and Dividend Income	\$ 6,289	\$ 15,802
421	Non-Utility Income	156,056	97,130
426	Miscellaneous Non-Utility Expenses		
427	Interest Expense	(16,770)	(24,144)
	TOTAL OTHER INCOME/EXPENSE	\$ 145,575	\$ 88,788
	NET INCOME/(LOSS)	\$ 622,274	\$ 968,884

SUPPLEMENTAL FINANCIAL DATA**Long-Term Debt**

	LOAN #1	LOAN #2	LOAN #3	LOAN #4
Date Issued	8/18/2000			
Source of Loan	WIFA			
ACC Decision No.				
Reason for Loan	Construction			
Dollar Amount Issued	\$ 644,000			
Amount Outstanding	\$ 490,840			
Date of Maturity	3/1/2018			
Interest Rate	6.26			
Current Year Interest	\$ 18,987			
Current Year Principal	\$ 28,335			

Meter Deposit Balance at Test Year End \$ 679,809

Meter Deposits Refunded During the Test Year \$ 60,000

WATER COMPANY PLANT DESCRIPTIONWELLS

ADWR ID Number*	Pump Horsepower	Pump Yield (Gpm)	Casing Depth (Feet)	Casing Diameter (Inches)	Meter Size (inches)	Year Drilled
55-625703 #3	75	350	396' / 614'	16" / 12"	8"	1974
55-087817 #6	200	700	759'	14"	8"	1981
55-087816 #8	300	1200	845'	14"	10"	1981

* Arizona Department of Water Resources Identification Number

OTHER WATER SOURCES

Name or Description	Capacity (gpm)	Gallons Purchased or Obtained (in thousands)

BOOSTER PUMPS		FIRE HYDRANTS	
Horsepower	Quantity	Quantity Standard	Quantity Other
10	3	150	
20	4		
25	3		
30	6		

STORAGE TANKS		PRESSURE TANKS	
Capacity	Quantity	Capacity	Quantity
100,000	2	1000	1
500,000	1	3000	1
600,000	1	5000	8
		6000	1

WATER COMPANY PLANT DESCRIPTION (CONTINUED)

MAINS

Size (in inches)	Material	Length (in feet)
2		4,555.2
3		
4		53,137.8
5		
6		130,883.0
8		102,187.0
10		16,309.9
12		96,907.0

CUSTOMER METERS

Size (in inches)	Quantity
5/8 X 3/4	2,148
3/4	7
1	17
1 1/2	11
2	47
Comp. 3	
Turbo 3	
Comp. 4	
Turbo 4	
Comp. 6	
Turbo 6	
	2,230

For the following three items, list the utility owned assets in each category.

TREATMENT EQUIPMENT:

Accu-tab tablet chlorination system
with a .2 residual of calcium

STRUCTURES:

OTHER:

WATER USE DATA SHEET BY MONTH FOR CALENDER YEAR 2004

MONTH	NUMBER OF CUSTOMERS	GALLONS SOLD (Thousands)	GALLONS PUMPED (Thousands)
JANUARY	1,587	12,942	15,794
FEBRUARY	1,633	10,508	13,314
MARCH	1,668	9,792	8,878
APRIL	1,707	15,134	16,591
MAY	1,806	16,304	22,247
JUNE	1,839	29,457	25,009
JULY	1,861	23,522	27,005
AUGUST	1,995	21,664	23,488
SEPTEMBER	1,981	21,914	31,337
OCTOBER	2,009	20,284	21,169
NOVEMBER	2,099	17,406	15,973
DECEMBER	2,230	16,095	17,803
TOTAL		N/A	238,608

732 af

Is the Water Utility located in an ADWR Active Management Area (AMA)?

(☒) Yes () No

Does the Company have an ADWR Gallons Per Capita Per Day (GPCPD) requirement?

() Yes (☒) No

If yes, provide the GPCPD amount: _____

What is the level of arsenic for each well in your system.

(If more than one well, please list each separately)

	Well 1 mg/1
	Well 2
< 0.0037	Well 3
	Well 4
	Well 5
< 0.0030	Well 6
	Well 7
< 0.003	Well 8
	Well 9

Note: If you are filing for more than one system, please provide separate data sheets for each system.

Company Name VAIL WATER COMPANY, INC. YEAR ENDING 12/31/04

PROPERTY TAXES

Amount of actual property taxes paid during Calender Year 2004

\$ 54,080

Attach to this annual report proof (e.g. property tax bills stamped "paid n full" or copies of cancelled checks for property tax payments) of any and all property taxes paid during the calender year.

If no property taxes paid, explain reasons below:

5561

VAIL WATER COMPANY1010 N. FINANCE CENTER DR. SUITE 200
TUCSON, AZ 85710
(520) 571-1958**BANK OF TUCSON**
TUCSON, ARIZONA 85732
91-556-1221

4/14/2004

PAY TO THE ORDER OF Beth Ford, Pima County Treasurer

\$ **22,706.30

Twenty-Two Thousand Seven Hundred Six and 30/100*****

DOLLARS

Beth Ford, Pima County Treasurer
Pima County Treasurer's Office
PO Box 98765
Phoenix, AZ 85038-0765

MEMO

2003 2nd half property taxes-4/5/04

⑈005561⑈ ⑆122105566⑆ 700⑈000⑈3⑈

Details on back.
Security Features Included.**VAIL WATER COMPANY**

Beth Ford, Pima County Treasurer

4/14/2004

5561

Date	Type	Reference	Original Amt.	Balance Due	Discount	Payment
04/05/2004	Bill	04/05/04	22,706.30	22,706.30		22,706.30
				Check Amount		22,706.30

Bank of Tucson 2003 2nd half property taxes-4/5/04

22,706.30

VAIL WATER COMPANY

Beth Ford, Pima County Treasurer

4/14/2004

5561

Date	Type	Reference	Original Amt.	Balance Due	Discount	Payment
04/05/2004	Bill	04/05/04	22,706.30	22,706.30		22,706.30
				Check Amount		22,706.30

Bank of Tucson 2003 2nd half property taxes-4/5/04

22,706.30

Beth Ford
Pima County Treasurer



Patti Davidson
Chief Deputy Treasurer

PIMA COUNTY TREASURER'S OFFICE

PIMA COUNTY TAX RECEIPT

VAIL WATER CO
CHRISTOPHER VOLPE/MANAGER
5151 E BROADWAY, SUITE 200
TUCSON AZ 85711

THIS IS YOUR RECEIPT FOR PAYMENT(S) OF 2003 REAL ESTATE TAXES

BOOK	MAP	PARCEL	TOTAL TAX ASSESSED	DATE
907	52	0000	\$ 44,439.20	4/27/2004

PAYMENTS					
PAYMENT DATE	DESCRIPTION	TAX PAID	INTEREST PAID	FEES PAID	TOTAL
04/27/2004	SECOND HALF	\$22,219.60	\$0.00	\$0.00	\$22,219.60
TOTAL PAID		\$22,219.60	\$0.00	\$0.00	\$22,219.60

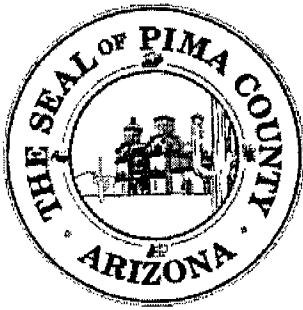
PROPERTY ADDRESS

TAX YEAR 2003 BALANCE DUE

DESCRIPTION	AMOUNT
FIRST HALF TAX DUE	\$0.00
SECOND HALF TAX DUE	\$0.00
NSF FEE DUE	\$0.00
RECLAIMED REFUND DUE	\$0.00
TOTAL AMOUNT DUE	\$0.00

Thank you for your payment!

BETH FORD
PIMA COUNTY TREASURER



Beth Ford
Pima County Treasurer

Parcel: 907520000 3 **Total Taxes:** \$44,439.20 **Tax Year:** 2003 **As of Date:** 09/29/2003

CURRENT STATUS

	First Half	Second Half
Tax Due:	\$22,219.60	\$22,219.60
Date Paid:		
Method:		
Tax Paid:	\$0.00	\$0.00
Paid By:		
Trans Type:		
Interest Paid:	\$0.00	\$0.00

PARCEL INFORMATION

Area Code: 2000

Taxpayer Name/Address:

Property Address:

Legal Description:

TAX DUE SUMMARY

	First Half	Second Half	Total Year
Taxes:	\$22,219.60	\$22,219.60	\$44,439.20
Interest:	\$0.00	\$0.00	\$0.00
	\$22,219.60	\$22,219.60	\$44,439.20
NSF Fees			\$0.00
Reclaimed Refunds			\$0.00
TOTAL AMOUNT DUE			\$44,439.20

HISTORY TAX ROLL CHANGE

2002 \$26,844.56
2001 \$35,899.86
2000 \$28,526.80
1999 \$20,490.84
1998 \$14,504.62

Beth Ford
Pima County Treasurer



Patti Davidson
Chief Deputy Treasurer

PIMA COUNTY TREASURER'S OFFICE

PIMA COUNTY TAX RECEIPT

VAIL WATER CO
1010 N FINANCE CENTER DR # 200
TUCSON AZ 85710

THIS IS YOUR RECEIPT FOR PAYMENT(S) OF 2003 REAL ESTATE TAXES

BOOK	MAP	PARCEL	TOTAL TAX ASSESSED	DATE
305	04	001L	\$ 973.40	4/27/2004

PAYMENTS					TOTAL
PAYMENT DATE	DESCRIPTION	TAX PAID	INTEREST PAID	FEES PAID	
04/27/2004	SECOND HALF	\$486.70	\$0.00	\$0.00	\$486.70
TOTAL PAID		\$486.70	\$0.00	\$0.00	\$486.70

PROPERTY ADDRESS

013955 E COLOSSAL CAVE RD

TAX YEAR 2003 BALANCE DUE

DESCRIPTION	AMOUNT
FIRST HALF TAX DUE	\$0.00
SECOND HALF TAX DUE	\$0.00
NSF FEE DUE	\$0.00
RECLAIMED REFUND DUE	\$0.00
TOTAL AMOUNT DUE	\$0.00

Thank you for your payment!

BETH FORD
PIMA COUNTY TREASURER

115 North Church Avenue - Tucson, Arizona 85701-1199 - Phone (520) 740-8341 - Fax (520) 884-4809

VAIL WATER COMPANY
1010 N. FINANCE CENTER DRIVE, SUITE 200
TUCSON, AZ 85710

BANK OF TUCSON
TUCSON, ARIZONA 85732
91-556-1221

9/29/2004

PAY TO THE ORDER OF Beth Ford, Pima County Treasurer

\$ **31,373.64

Thirty-One Thousand Three Hundred Seventy-Three and 64/100*****

DOLLARS

Beth Ford, Pima County Treasurer
Pima County Treasurer's Office
PO Box 98765
Phoenix, AZ 85038-0765

TWO SIGNATURES REQUIRED

MEMO

⑈006012⑈ ⑆122105566⑆ 700⑈000⑈3⑈

VAIL WATER COMPANY

Beth Ford, Pima County Treasurer

9/29/2004

6012

Date	Type	Reference	Original Amt.	Balance Due	Discount	Payment
09/22/2004	Bill	305 04 001L4 1/04	484.94	484.94		484.94
09/22/2004	Bill	305 04 001V1 1/04	13.32	13.32		13.32
09/22/2004	Bill	305 04 001W0 1/04	11.94	11.94		11.94
09/22/2004	Bill	305 06 004D0 1/04	13.63	13.63		13.63
09/22/2004	Bill	305 08 001D7 1/04	13.63	13.63		13.63
09/22/2004	Bill	305 11 02808 1/04	23.79	23.79		23.79
09/22/2004	Bill	305 12 008B1 1/04	18.02	18.02		18.02
09/22/2004	Bill	305 14 01107 1/04	18.02	18.02		18.02
09/22/2004	Bill	305 20 001B3 1/04	18.02	18.02		18.02
09/22/2004	Bill	305 20 001C2 1/04	59.00	59.00		59.00
09/22/2004	Bill	305 39 20909 1/04	53.91	53.91		53.91
09/22/2004	Bill	305 90 09305 1/04	21.31	21.31		21.31
09/22/2004	Bill	907 52 00003 1/04	30,624.11	30,624.11		30,624.11
				Check Amount		31,373.64

31,373.64

Bank of Tucson

VAIL WATER COMPANY

Beth Ford, Pima County Treasurer

9/29/2004

6012

Date	Type	Reference	Original Amt.	Balance Due	Discount	Payment
09/22/2004	Bill	305 04 001L4 1/04	484.94	484.94		484.94
09/22/2004	Bill	305 04 001V1 1/04	13.32	13.32		13.32
09/22/2004	Bill	305 04 001W0 1/04	11.94	11.94		11.94
09/22/2004	Bill	305 06 004D0 1/04	13.63	13.63		13.63
09/22/2004	Bill	305 08 001D7 1/04	13.63	13.63		13.63
09/22/2004	Bill	305 11 02808 1/04	23.79	23.79		23.79
09/22/2004	Bill	305 12 008B1 1/04	18.02	18.02		18.02
09/22/2004	Bill	305 14 01107 1/04	18.02	18.02		18.02
09/22/2004	Bill	305 20 001B3 1/04	18.02	18.02		18.02
09/22/2004	Bill	305 20 001C2 1/04	59.00	59.00		59.00
09/22/2004	Bill	305 39 20909 1/04	53.91	53.91		53.91
09/22/2004	Bill	305 90 09305 1/04	21.31	21.31		21.31
09/22/2004	Bill	907 52 00003 1/04	30,624.11	30,624.11		30,624.11
				Check Amount		31,373.64

31,373.64

Bank of Tucson

PIMA COUNTY TREASURER'S OFFICE

TAX PAYMENT RECEIPT

Paid Date 10/26/2004

Batch Number I041026054

Paid by Code 01

VAIL WATER COMPANY
 1010 N. FINANCE CENTER DRIVE, SUITE 200
 TUCSON, AZ 85710

Method Amount

CK \$31,373.64

Total Amount Paid \$31,373.64

Total Tax Amount Paid \$31,373.64

Total Interest Amount Paid \$0.00

Total Refund Due \$0.00

PARCEL NUMBER	TAX PAID	INTEREST PAID	TOTAL PAID	PAYMENT TYPE	LEGAL DESCRIPTION
30504001L	\$484.94	\$0.00	\$484.94	FIRST HALF	IRR PCL SW4 SE4 LYG N OF & ADJ TO COLOSSAL CAVE RD (WELLSITE) .50 AC SEC 10-16-16 (RD 8396/840)
30504001V	\$13.32	\$0.00	\$13.32	FIRST HALF	CTRL PTN W2 NW4 .28 AC SEC 10- 16-16 (11536/1623)
30504001W	\$11.94	\$0.00	\$11.94	FIRST HALF	CTRL PTN S2 NE4 .20 AC SEC 10- 16-16
30506004D	\$13.63	\$0.00	\$13.63	FIRST HALF	N CTRL PTN S2 SE4 .15 AC SEC 4- 16-16
30508001D	\$13.63	\$0.00	\$13.63	FIRST HALF	S80' N131.31' W80' E1147.41' NE4 .15 AC SEC 8-16-16
305110280	\$23.79	\$0.00	\$23.79	FIRST HALF	WELLSITE BNG W116.16' OF E1230.76' OF S125' OF SE4 SE4 .33 AC SEC 14-16-16 (ACC 0053195-8) TOTAL VALUE OF OPERATING PROPERTY - TAXPAYER GROUP NO 075

30512008B	\$18.02	\$0.00	\$18.02	FIRST HALF	SUCCESS 100' X 100' WELLSITE BLK 1 TOTAL VALUE OF OPERATING PROPERTY - TAXPAYER GROUP NO 075 (ACC 0053195-8)
305140110	\$18.02	\$0.00	\$18.02	FIRST HALF	TUCSON PARK NO 1 WELLSITE ADJ TO NW LINE OF LOT 2 TOTAL VALUE OF OPERATING PROPERTY-TAXPAYER GROUP NO 075 (ACC 0053195-8)
30520001B	\$18.02	\$0.00	\$18.02	FIRST HALF	RINCON VIEW ESTATES N15' LOT 1 TOTAL VALUE OF OPERATING PROPERTY - TAXPAYER GROUP NO 660
30520001C	\$59.00	\$0.00	\$59.00	FIRST HALF	RINCON VIEW ESTATES S125' N140' LOT 1
305392090	\$53.91	\$0.00	\$53.91	FIRST HALF	N100' OF W100' OF E2367' OF NE4 .23 AC SEC 10-17-16 (FORMERLY 305-39-030K) TOTAL VALUE OF OPERATING PROPERTY-GROUP 075 (ACC 0053195-8) (FORMERLY 305-39- 0550)
305900930	\$21.31	\$0.00	\$21.31	FIRST HALF	VAIL RANCH LOT 0061
907520000	\$30,624.11	\$0.00	\$30,624.11	FIRST HALF	TOTAL VALUE OF OPERATING PROPERTY - TAXPAYER GROUP NO 075 (ACC 0053195-8)

Company Name VAIL WATER COMPANY, INC. YEAR ENDING 12/31/04

INCOME TAXES

For this reporting period, provide the following:

Federal Taxable Income Reported	<u>\$0</u>
Estimated or Actual Federal Tax Liability	<u>\$0</u>

State Taxable Income Reported	<u>\$0</u>
Estimated or Actual State Tax Liability	<u>\$0</u>

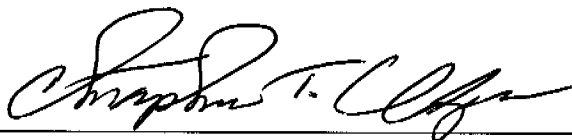
Amount of Grossed-Up Contributions/Advances:

Amount of Contributions/Advances	<u>N/A</u>
Amount of Gross-Up Tax Collected	<u>N/A</u>
Total Grossed-Up Contributions/Advances	<u>N/A</u>

Decision No. 55774 states, in part, that the utility will refund any excess gross-up funds collected at the close of the tax year when tax returns are completed. Pursuant to this Decision, if gross-up tax refunds are due to any Payer or if any gross-up tax refunds have already been made, attach the following information by Payer: name and amount of contribution/advance, the amount of gross-up tax collected, the amount of refund due to each Payer, and the date the Utility expects to make or has made the refund to the Payer.

CERTIFICATION

The undersigned hereby certifies that the Utility has refunded to Payers all gross-up tax refunds reported in the prior year's annual report. This certification is to be signed by the President or Chief Executive Officer, if a corporation; the managing general partner, if a partnership; the managing member, if a limited liability company or the sole proprietor, if a sole proprietorship.



SIGNATURE



DATE

CHRISTOPHER T. VOLPE

PRINTED NAME

VICE PRESIDENT

TITLE

VERIFICATION
AND
SWORN STATEMENT
Intrastate Revenues Only

RECEIVED

APR 01 2005

VERIFICATION

STATE OF ARIZONA

I, THE UNDERSIGNED

OF THE

COUNTY OF (COUNTY NAME)	<u>Pima</u>
NAME (OWNER OR OFFICIAL) TITLE	
COMPANY NAME	<u>VAIL WATER COMPANY</u>

AZ Corporation Commission
Director Of Utilities

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
<u>12</u>	<u>31</u>	<u>2004</u>

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENT OF TITLE 40, ARTICLE 8, SECTION 40-401, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS DURING CALENDAR YEAR 2004 WAS:

Arizona Intrastate Gross Operating Revenues Only (\$)

\$ 2,183,386

(THE AMOUNT IN BOX ABOVE
INCLUDES \$ 83,914
IN SALES TAXES BILLED, OR COLLECTED)

**REVENUE REPORTED ON THIS PAGE MUST INCLUDE SALES TAXES BILLED OR COLLECTED. IF FOR ANY OTHER REASON, THE REVENUE REPORTED ABOVE DOES NOT AGREE WITH TOTAL OPERATING REVENUES ELSEWHERE REPORTED, ATTACH THOSE STATEMENTS THAT RECONCILE THE DIFFERENCE. (EXPLAIN IN DETAIL)

Christopher T. Vick
SIGNATURE OF OWNER OR OFFICIAL
520-571-1958 X105
TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS

31st

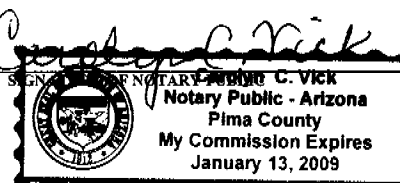
DAY OF

COUNTY NAME	<u>Pima</u>
MONTH	<u>March</u>
	<u>2005</u>

(SEAL)

MY COMMISSION EXPIRES

1-13-09



**VERIFICATION
AND
SWORN STATEMENT
RESIDENTIAL REVENUE
INTRASTATE REVENUES ONLY**

APR 15 2005

VERIFICATION

STATE OF ARIZONA

I, THE UNDERSIGNED

OF THE

COUNTY OF (COUNTY NAME) <u>Pima</u>	
NAME (OWNER OR OFFICIAL)	TITLE
COMPANY NAME <u>VAIL WATER COMPANY</u>	

DO SAY THAT THIS ANNUAL UTILITY REPORT TO THE ARIZONA CORPORATION COMMISSION

FOR THE YEAR ENDING

MONTH	DAY	YEAR
12	31	2004

HAS BEEN PREPARED UNDER MY DIRECTION, FROM THE ORIGINAL BOOKS, PAPERS AND RECORDS OF SAID UTILITY; THAT I HAVE CAREFULLY EXAMINED THE SAME, AND DECLARE THE SAME TO BE A COMPLETE AND CORRECT STATEMENT OF BUSINESS AND AFFAIRS OF SAID UTILITY FOR THE PERIOD COVERED BY THIS REPORT IN RESPECT TO EACH AND EVERY MATTER AND THING SET FORTH, TO THE BEST OF MY KNOWLEDGE, INFORMATION AND BELIEF.

SWORN STATEMENT

IN ACCORDANCE WITH THE REQUIREMENTS OF TITLE 40, ARTICLE 8, SECTION 40-401.01, ARIZONA REVISED STATUTES, IT IS HEREIN REPORTED THAT THE GROSS OPERATING REVENUE OF SAID UTILITY DERIVED FROM ARIZONA INTRASTATE UTILITY OPERATIONS RECEIVED FROM RESIDENTIAL CUSTOMERS DURING CALENDAR YEAR 2004 WAS:

ARIZONA INTRASTATE GROSS OPERATING REVENUES

\$ 949,208

(THE AMOUNT IN BOX AT LEFT
INCLUDES \$ 51,063
IN SALES TAXES BILLED, OR COLLECTED)

*RESIDENTIAL REVENUE REPORTED ON THIS PAGE
MUST INCLUDE SALES TAXES BILLED.

Charles T. Claff
SIGNATURE OF OWNER OR OFFICIAL

520-571-1958 x105
TELEPHONE NUMBER

SUBSCRIBED AND SWORN TO BEFORE ME

A NOTARY PUBLIC IN AND FOR THE COUNTY OF

THIS

11th

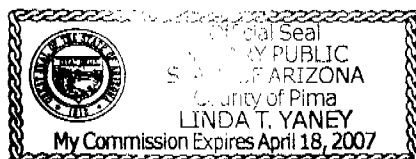
DAY OF

NOTARY PUBLIC NAME <u>Linda T. Yaney</u>	
COUNTY NAME <u>Pima</u>	
MONTH <u>April</u>	20 <u>06</u>

(SEAL)

MY COMMISSION EXPIRES

x Linda T. Yaney
SIGNATURE OF NOTARY PUBLIC



FINANCIAL INFORMATION

Attach to this annual report a copy of the companies' year-end (Calendar Year 2004) financial statements. If you do not compile these reports, the Utilities Division will supply you with blank financial statements for completion and filing. **ALL INFORMATION MUST BE ARIZONA-SPECIFIC AND REFLECT OPERATING RESULTS IN ARIZONA.**

VAIL WATER COMPANY
AUDITED FINANCIAL STATEMENTS
December 31, 2004 and 2003

INDEPENDENT AUDITORS' REPORT

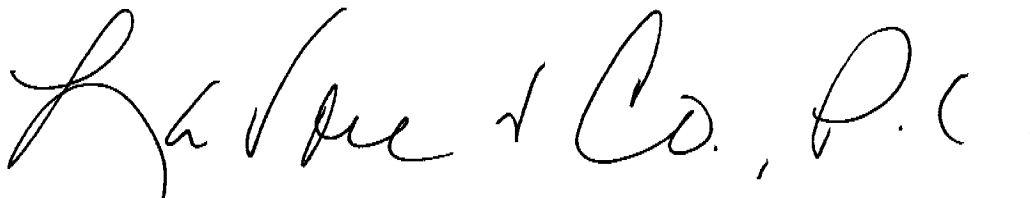
Board of Directors
Vail Water Company
Tucson, Arizona

We have audited the accompanying statements of assets, capitalization and liabilities - income tax basis of Vail Water Company (an Arizona S-Corporation) as of December 31, 2004 and 2003, and the related statements of revenue, expenses and accumulated earnings (deficit) - income tax basis for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As described in Note 2, these financial statements were prepared on the basis of accounting the Company uses for income tax purposes, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the assets, capitalization, and liabilities of Vail Water Company at December 31, 2004 and 2003 and its revenue, expenses and accumulated earnings (deficit) for the years then ended, on the basis of accounting described in Note 2.



La Voie & Company, P.C.
Tucson, Arizona
February 9, 2005

Vail Water Company

STATEMENTS OF ASSETS, CAPITALIZATION AND
LIABILITIES - INCOME TAX BASIS

		December 31,	
		2004	2003
ASSETS			
Utility Plant:			
Land	\$	11,000	\$ 11,000
Plant and equipment (Note 3)		11,479,103	8,076,710
Construction work-in-progress (Note 4)		102,015	14,039
Total Utility Plant		11,592,118	8,101,749
Less accumulated depreciation		(1,737,701)	(1,473,470)
Net Utility Plant		9,854,417	6,628,279
Other Assets		8,924	13,118
Current Assets:			
Cash		795,624	576,862
Customer accounts receivable		158,409	124,438
Receivable from annexation group		38,335	38,535
Prepaid expenses		18,720	19,388
Total Current Assets		1,011,088	759,223
Noncurrent Asset --			
Money market funds (Note 5)		1,695,702	766,364
Total Assets	\$	12,570,131	\$ 8,166,984

The accompanying notes are an integral part of these financial statements.

Vail Water Company

STATEMENTS OF REVENUE, EXPENSES
AND ACCUMULATED EARNINGS
(DEFICIT) - INCOME TAX BASIS

	For The Years Ended December 31,	
	2004	2003
Operating Revenue	\$ 2,199,407	\$ 1,642,392
Operating Expenses:		
Administrative and general	465,908	319,835
Professional services	244,979	270,259
Depreciation and amortization	339,794	265,935
Purchased water	58,892	59,343
Purchased power	102,440	108,286
Property and other taxes	54,427	23,131
Repairs and maintenance	14,577	13,414
Other	41,324	14,328
Total Operating Expenses	1,322,340	1,074,531
Income Before Interest Income and Expense	877,067	567,861
Interest Income	15,802	6,289
Interest Expense	(24,144)	(16,770)
Net Income	868,725	557,380
Distributions to shareholders	(250,000)	(150,000)
Accumulated deficit, beginning of year	(179,003)	(586,383)
Accumulated earnings (deficit), end of year	\$ 439,722	\$ (179,003)

The accompanying notes are an integral part of these financial statements.

Vail Water Company
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

Note 1 - ORGANIZATION HISTORY AND NATURE OF OPERATIONS

Vail Water Company (the "Company"), formerly known as Del Lago Water Company, was formed on June 10, 1959 as a corporation under the laws of the State of Arizona. The Company is engaged in the regulated utility business of public water supply. The Company is regulated by several Arizona agencies, including the Arizona Corporation Commission (ACC), which has jurisdiction with respect to rates, services, accounting procedures and other matters. The Company is operating under a rate order effective May 1, 2000.

The Company provides groundwater to approximately 2,230 customers in Vail, Arizona. As a consequence of utilizing groundwater, the Company is subject to various water conservation requirements authorized pursuant to the Arizona Revised Statutes 45-566. In addition, the Company has a fully executed, judicially validated, municipal subcontract with the Central Arizona Water Conservation District and the United States of America for the purchase of up to 786 acre feet per annum of Central Arizona Project Water.

Under a Decision and Order dated January 4, 1996, the Department of Water Resources of the State of Arizona designated the Company as having an assured water supply. Certain conditions apply including on going reporting by the Company to the Department of Water Resources.

No single customer accounted for more than 10% of the Company's sales. The Company owns nine registered wells, three of which provide water to customers.

Note 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The financial statements have been prepared on the basis of accounting that the Company uses to file its income tax return. The basis differs from generally accepted accounting principles (GAAP) in the following ways:

- a) The tax basis of accounting requires that contributions in aid of construction (whether or not made by the utility's shareholders) received after June 12, 1996 are not taxable when received and have a zero tax basis to the Company:
 - 1) if not included in the utility's rate base for rate making purposes,
 - 2) if used to acquire or construct property before the end of the second year following receipt of the contribution, and
 - 3) if certain conditions concerning the keeping of records are met.

For GAAP, a regulated entity should capitalize costs if it is possible that future revenue will be provided to recover the costs and record a liability for revenue that provides recovery of expected future costs. Under GAAP, this deferred revenue, recorded as a liability, should be recognized in income as related costs are incurred.

- b) The tax basis of accounting expenses certain costs when paid under the economic performance rules. GAAP accounting requires the recognition of expenses as incurred.

Vail Water Company
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

Note 2 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) The tax basis of accounting uses specific statutory lives for depreciation purposes. GAAP requires assets to be depreciated over the assets' estimated useful lives.

d) The tax basis of accounting uses the direct write-off method for bad debts while GAAP uses the reserve method.

Plant and Equipment - Plant and equipment are stated at cost and are depreciated using straight-line and accelerated methods as allowed by the Internal Revenue Code over statutory lives of the applicable assets (Note 3).

Income Taxes - The stockholders of the Company have elected to have the corporation taxed under the provisions of Subchapter S of the Internal Revenue Code. Accordingly, the separately stated items of income and deductions of the corporation will be reported on the income tax returns of the individual stockholders.

Generally, a corporation computes built-in gains or losses on the conversion of a C Corporation to an S Corporation based on the differences between the fair market value and tax basis of the assets held by the corporation. At the time the Company converted to S Corporation status, it had no built-in gains or losses. However, the C Corporation had net operating losses amounting to \$891,000 at the time of conversion to S Corporation status, which are suspended indefinitely while the Company remains an S Corporation.

Advances and Contributions in Aid of Construction - Outside parties, generally customers and developers, make payments to the Company to fund certain capital expenditures to provide water to new customers. Amounts received are recorded as liabilities. Generally, as new customers begin to receive service, most of these amounts are refundable for limited periods of times. After the Company has paid all required refunds, the remaining balances are recorded as contributions in aid of construction. Contributions in aid of construction are amortized to income over the lives of the respective plant assets they relate to. Nonrefundable amounts received by the Company are recorded as contributions in aid of construction, as discussed under a) above.

Concentrations of Credit Risk - In the normal course of business, the Company extends unsecured credit to customers.

The Company holds its cash balances in one financial institution in Tucson, Arizona. Accounts at this institution are insured up to \$100,000 by the FDIC. At December 31, 2004 and 2003, the Company's uninsured bank balances totaled \$2,350,000 and \$1,170,000, respectively.

Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect reported amounts and disclosures. Actual results could differ from those estimates.

Reclassifications - Certain comparative amounts for 2003 have been reclassified to conform to the 2004 presentation.

Vail Water Company
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

Note 3 - PLANT AND EQUIPMENT

Plant and equipment at December 31 consists of:

	<u>2004</u>	<u>2003</u>
Transmission and distribution mains	\$ 8,398,226	\$5,235,515
Wells and springs	578,870	564,177
Pumping equipment	923,151	906,497
Distribution reservoirs and standpipes	781,582	781,582
Structures and improvements	116,018	102,804
Other equipment and furniture	108,830	112,801
Meters	<u>572,426</u>	<u>373,334</u>
	<u>\$11,479,103</u>	<u>\$8,076,710</u>

Depreciation expense charged to operations was \$376,660 and \$259,555 in 2004 and 2003, respectively.

The lives of plant and equipment for purposes of computing depreciation are:

Utility plant	20 - 40 years
Furniture and fixtures	7 - 10 years
Equipment	5 - 7 years

Note 4 - CONSTRUCTION WORK-IN-PROGRESS

Construction work-in-progress consists of water meters and transmission and distribution reservoirs. Construction work-in-progress is funded by advances for construction.

Note 5 - NONCURRENT ASSET - MONEY MARKET FUNDS

These money market funds are restricted for the following at December 31:

	<u>2004</u>	<u>2003</u>
Hookup tariff (Note 11)	\$ 383,771	\$165,563
Loan commitment (Note 8)	266,646	174,683
CAP hookup and service charge (Note 9)	<u>1,045,285</u>	<u>426,118</u>
	<u>\$1,695,702</u>	<u>\$766,364</u>

Vail Water Company
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

Note 6 - CUSTOMER DEPOSITS

Customers are required to make meter, service line, and guarantee deposits when service is initiated. Meter and service line deposits are subject to the Company's 2000 rate order and are refundable at a rate of 10% per year.

Guarantee deposits are refunded after one year of satisfactory water payments. The guarantee deposits bear minimal interest, which is periodically paid to the customers. Customer deposits at December 31 were:

	<u>2004</u>	<u>2003</u>
Meter	\$608,124	\$355,352
Service line	4,040	6,110
Guarantee	<u>67,645</u>	<u>61,120</u>
	679,809	422,582
Less current portion	<u>(130,000)</u>	<u>(60,000)</u>
	<u>\$549,809</u>	<u>\$362,582</u>

The schedule of estimated deposit refunds payable to customers for each of the next five years and in the aggregate, as of December 31, is as follows:

	<u>Annual Refund</u>
2005	\$130,000
2006	124,000
2007	120,000
2008	114,000
2009	109,000
Thereafter	<u>82,809</u>
	<u>\$679,809</u>

Note 7 - LONG-TERM NOTE PAYABLE

The long-term note payable at December 31 is as follows:

	<u>2004</u>	<u>2003</u>
Water Infrastructure Finance Authority unsecured note payable. Total loan facility is \$644,000. Payable in monthly installments not less than \$4,711 plus \$942 to a reserve account. Interest rate is 6.26%. Amount net of reserve account. (See Note 8).	\$490,840	\$519,175
Less current portion	<u>(30,000)</u>	<u>(24,000)</u>
	<u>\$460,840</u>	<u>\$495,175</u>

Vail Water Company
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

Note 7 - LONG-TERM NOTE PAYABLE (Continued)

The schedule of principal maturities as of December 31 for each of the next five years and in the aggregate is as follows:

	<u>Amount</u>
2005	\$ 30,000
2006	32,000
2007	34,000
2008	36,000
2009	38,000
Thereafter	<u>320,840</u>
	<u>\$490,840</u>

Interest expense on the above note totaled \$19,000 and \$13,000 for the years ending December 31, 2004 and 2003, respectively.

Note 8 - LOAN COMMITMENT

The Company has a loan commitment of up to \$644,000 with the Water Infrastructure Finance Authority of Arizona for the development of a chlorination facility, booster station upgrades and main extension upgrades. Pursuant to the May 2000 rate order, the Company is required to collect a monthly surcharge of \$6.92 per customer which will be used to pay the loan when drawn on. These funds are required to be deposited in a restricted cash account. The revenue from these fees is recorded as unearned income until the funds collected are used to pay the outstanding loan amounts.

Note 9 - CENRAL ARIZONA PROJECT

As a condition of the May 2000 rate order, the Company agreed to begin recharging its CAP water allocation within six months. As a result of this condition, the Company entered into a contract with the Central Arizona Water Conservation District for the provision of incentive recharge water. The contract is subject to the terms and conditions of the original municipal subcontract entered into between the parties. In order to recover its associated costs, the May 2000 rate order approved a CAP hookup fee of \$1,000 for all new line extensions and subdivisions north of well No. 3, and a CAP service charge of \$.32 per 1,000 gallons of usage that applies to all customers. Following the interconnection of the systems north and south of well No. 3, the CAP hookup fee will also apply to all customers. The Company collected \$606,000 and \$242,000 of CAP hookup fees during 2004 and 2003, respectively. The CAP service charge is to be segregated in an interest bearing account and used solely for the purpose of paying CAP holding and M&I expenses.

The Company has entered into a contract to recharge its entire CAP allocation for the purpose of accumulating long-term storage credits.

Vail Water Company
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

Note 9 – CENRAL ARIZONA PROJECT (Continued)

In 2004 and 2003, the Company entered into a lease arrangement with Del Lago, LLC, an entity owned by certain shareholders of the Company for 125 acre feet of long-term storage credits each year.

Note 10 - LINE EXTENSION AGREEMENTS

Developers and customers, on behalf of the Company, constructed line extensions to provide service to their property. The Company agrees to refund amounts, up to the cost of such extensions, over 10 to 20 years based upon 10% to 20% of gross annual revenue from water sales to the customers serviced by the lines. At the expiration of this period any unrefunded balance remains with the Company and is classified as contributions in aid of construction. No agreements expired during 2004 and 2003.

Note 11 - HOOK-UP FEE TARIFFS

On January 14, 1998, the Arizona Corporation Commission approved an off-site facilities hook-up fee tariff, initially applicable to the south service area, until such time as the north and south systems were physically connected. The interconnection of the two systems was completed and accepted by Pima County DEQ on March 14, 2002. The hook up fee tariff is now being charged throughout the Company's service area. Customers have advanced funds to the Company for these hook-up fees. The fees are a non-refundable charge assessed to new connections requiring a main extension.

Note 12 - ANNEXATION

On December 3, 2004 the Arizona Corporation Commission approved an annexation of the Company's service area to include approximately 140 units.

Note 13 - RELATED PARTY TRANSACTIONS

During 2004 and 2003, the Company charged Del Lago, LLC, an entity owned by certain stockholders of the Company, \$46,000 and \$37,000, respectively, for water usage and credits and energy use. The amounts in customer accounts receivable from this entity at December 31, 2004 and 2003 was \$26,000 and \$13,300, respectively.

The Company has entered into an agreement for management services with a corporation controlled by a stockholder of the Company. The management agreement expired December 31, 2004 and required the Company to pay \$8.50 per customer per month in exchange for certain accounting and administrative functions. Management services paid under the contract for the years ended December 31, 2004 and 2003, were \$191,000 and \$147,000, respectively. Management services are included in professional services. At December 31, 2004 and 2003, \$19,000 and \$13,100 respectively, are included in accounts payable and accrued expenses. A new agreement was entered into for 2005 at \$8.50 per customer.

Vail Water Company
NOTES TO FINANCIAL STATEMENTS
December 31, 2004 and 2003

Note 13 - RELATED PARTY TRANSACTIONS (Continued)

The Company leases office facilities from Vail Valley Joint Venture, a partnership controlled by some of the Company's shareholders. The lease is renewed on an annual basis. Rent expense for 2004 and 2003 was \$19,000 and \$18,000, respectively.

Note 14 - STOCK TRANSFER RESTRICTIONS

The stockholders have entered into a Stockholders' Agreement, which establishes certain transfer restrictions on the stock of the Company as follows:

- a) Stockholders may not assign, sell, pledge, encumber, give or otherwise transfer, or alienate any shares to another entity if such transfer would revoke the Company's S Corporation tax status.
- b) Stockholders may transfer their shares to, or for the benefit of, an immediate family member subject to certain restrictions of the Agreement.
- c) Stockholders may transfer all or any number of shares to one or more members of the stockholder group.
- d) The Agreement provides certain stock transfer restrictions in the event that a stockholder shall die, become permanently disabled or become subject to another event defined as an Involuntary Lifetime Transfer in the Agreement.